

# Revenue

## Tax Administration

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### LFB Summary Items for Which Issue Papers Have Been Prepared

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To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### County Sales Tax Administration Appropriation Lapse (Revenue -- Tax Administration)

[LFB Summary: Page 522, #23]

## CURRENT LAW

Wisconsin counties may impose a 0.5% sales tax on the goods and services that are subject to the state sales tax. The county tax is "piggybacked" onto the state sales tax in that the county tax is administered, enforced and collected by the Department of Revenue (DOR). DOR retains 1.5% of the sales taxes it collects to cover administrative costs. Currently, 49 counties impose the county sales tax.

## GOVERNOR

Require that the fiscal year-end unencumbered balance in the appropriation for administration of the county sales tax be annually lapsed to the general fund, beginning on June 30, 1998. This provision would result in an estimated lapse of \$491,600 in 1997-98 and \$461,700 in 1998-99.

## DISCUSSION POINTS

1. Prior to 1992, DOR retained 3% of county sales taxes to fund the costs of administering the tax. Because the revenue retained by the state exceeded the state's administrative costs, the amount of collections retained was reduced from 3% to 1.5% in 1991 Wisconsin Act 37. The 1991-93 budget adjustment bill (1991 Wisconsin Act 269) transferred

\$1,400,000 that had accumulated in the administrative appropriation to the general fund. Under provisions included in 1995 Wisconsin Act 27 (the 1995-97 budget), an additional \$1,221,600 will be transferred from the administrative appropriation to the general fund on June 30, 1997. The Act also would have decreased the amount of sales taxes retained by DOR from 1.5% to 1.3% beginning on July 1, 1997. However, the Governor vetoed this provision.

2. Since 1992, the 1.5% share of collections has generated revenues in excess of the amounts needed to cover administrative expenditures. The amount of revenues over authorized expenditures remains in the balance of the county sales tax administrative appropriation.

3. Some would argue that the excess funds should be rebated to the counties which impose the sales tax. This would return local sales tax revenues that are not necessary to cover state administrative costs to counties. These monies initially derived from the local sales tax, and a rebate would return them to their source.

However, others believe that the state should retain the balance in the appropriation as reimbursement for the general administrative services, such as taxpayer registration, data processing and compliance, that are provided because the county tax is attached to the state's general sales tax processing system. Because such activities are funded by GPR, the excess balance should be transferred to the general fund.

4. The estimated 1997-98 and 1998-99 year-end balances in the county sales tax administrative appropriation are shown in the following table:

	<u>1997-98</u>	<u>1998-99</u>
Opening Balance	\$189,500	\$597,200
Revenue	2,519,500	2,645,200
Expenditures	<u>- 2,111,800</u>	<u>- 2,111,800</u>
Closing Balance	\$597,200	\$1,130,600

The table shows that under the lapse provision in the bill an estimated \$597,200 would be transferred to the general fund in 1997-98 rather than \$491,600; an additional \$533,400 (\$1,130,600 minus \$597,200) would be lapsed in 1998-99 rather than \$461,700.

5. The table also shows that ongoing revenues exceed ongoing expenditures by over \$400,000 each year. One option that could be considered would be to reduce the current 1.5% amount retained by DOR to 1.2%. This would reduce the amount of revenues retained by the state to better match state spending, as was done in 1991. This modification could occur on July 1, 1997, in which case no funding would lapse to the general fund in the 1997-99 biennium.

Alternatively, the percentage could be decreased beginning July 1, 1999, to allow for the lapses of the appropriation balance in the 1997-99 biennium, as proposed by the Governor.

## ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation to require that the fiscal year-end unencumbered balance in the appropriation for administration of the county sales tax be annually lapsed to the general fund. Reestimate the lapses to be \$597,200 in 1997-98 and \$533,400 in 1998-99.

<u>Alternative 1</u>	<u>GPR</u>
1997-99 REVENUE (Change to Bill)	\$177,300

2. Delete the Governor's recommendation and instead reduce, from 1.5% to 1.2%, the amount of county sales taxes retained by DOR to administer the tax effective July 1, 1997.

<u>Alternative 2</u>	<u>GPR</u>
1997-99 REVENUE (Change to Bill)	- \$953,300

3. Adopt the Governor's recommendation as reestimated with a modification to reduce, from 1.5% to 1.2%, the amount of county sales taxes retained by DOR to administer the tax. The modification to reduce DOR's administrative percentage would be effective July 1, 1999.

<u>Alternative 3</u>	<u>GPR</u>
1997-99 REVENUE (Change to Bill)	\$177,300

4. Delete the Governor's recommendation.

<u>Alternative 4</u>	<u>GPR</u>
1997-99 REVENUE (Change to Bill)	- \$953,300

Prepared by: Ron Shanovich

MO# Alt 3 w/ change  
from 1.2% to 1.3%

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 8 NO 7 ABS

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### Telephone Tax Administration (Revenue -- Tax Administration)

[LFB Summary: Page 520, #18]

## CURRENT LAW

The Manufacturing Assessment Bureau 1997-98 base funding level is \$2,621,900 GPR with 45.8 GPR positions.

## GOVERNOR

Provide expenditure authority of \$305,700 PR in 1997-98 and \$281,700 PR in 1998-99 and 6.0 PR positions annually to administer the ad valorem tax on telephone companies. A statutory provision which specifies the amounts that should be provided for administering the tax would be deleted.

## DISCUSSION POINTS

1. Under the provisions of 1995 Wisconsin Act 351, the state utility tax on telephone companies will be converted from a gross revenues tax to an ad valorem tax, beginning with taxes due for 1998. The Act also created a separate program revenue appropriation to provide funds to the Department to administer the tax; the source of revenue for the program revenue appropriation is the ad valorem tax on utility companies. No expenditure authority was provided for 1995-96 and 1996-97. However, the Act specified that DOR should be provided \$307,300 in 1997-98 and \$283,300 in 1998-99 and 6.0 positions, beginning on July 1, 1997. Under the

budget bill, the amounts specified in the Act would be deleted and, instead, the recommended expenditure authority would be provided for the administrative appropriation.

2. The 6.0 positions were provided because the bill would require DOR to assess the property of local exchange telephone companies such as Wisconsin Bell. This would represent a substantially increased workload for Department assessment staff.

3. The funding and positions would be placed in DOR's Manufacturing Assessment Bureau which would reflect conversion of the tax to an ad valorem tax, based on the state assessed value of telephone company property. The Bureau and its positions are funded entirely from general purpose revenues.

4. As noted, the source of funding for the new telephone tax administration program revenue would be ad valorem utility taxes. Because telephone utility taxes are general fund taxes, general fund revenues would be reduced by \$305,700 in 1997-98 and \$281,700 in 1998-99.

5. The Department of Administration's 1997-99 budget instruction manual defines general purpose revenue as general taxes and other moneys which are collected by state agencies and deposited into the general fund, and are available for appropriation by the Legislature. Program revenue is defined as moneys which are collected from the general public by state agencies for specific purposes, deposited in the general fund and credited directly to an appropriation to finance those purposes.

Since the source of revenue for the telephone tax administration appropriation is a general fund tax and not revenue collected for a specific purpose, some would argue that designating a portion of utility taxes as program revenue would be inappropriate. Also, administration of most general fund taxes, such as the individual and corporate income and franchise taxes, sales and use taxes, estate taxes and other utility taxes is funded by general purpose revenues. Moreover, administration of state assessment of all manufacturing property is entirely funded with GPR. From this view, administration of the ad valorem utility tax on telephone companies should be funded with GPR.

Consequently, the Committee may wish to modify the bill to provide \$305,700 GPR in 1997-98 and \$281,700 GPR in 1998-99 and 6.0 GPR positions and delete the program revenue funding, positions and appropriations. Since these telephone company utility taxes would be placed in the general fund rather than designated for a specific purpose, the net effect on the general fund would be revenue neutral. General fund revenues would be increased by \$587,400 in the biennium while GPR expenditures would be increased by the same amount.

6. However, others argue that designating a portion of ad valorem telephone utility tax revenues to fund administration of the tax would ensure that the companies that benefitted from the conversion of the tax from a gross revenues tax would fund the additional costs of

administering the ad valorem tax. Moreover, by enacting this provision in Act 351 the Legislature approved this use of utility tax revenues.

## ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide expenditure authority of \$305,700 PR in 1997-98 and \$281,700 PR in 1998-99 and 6.0 PR positions annually to administer the ad valorem utility tax on telephone companies. In addition, delete the current statutory provisions that specify the amounts that should be provided for administering the tax.

2. Modify the Governor's recommendation to delete \$305,700 PR in 1997-98 and \$281,700 PR in 1998-99 and 6.0 PR positions and the program revenue telephone tax administration appropriation and, instead, provide \$305,700 GPR in 1997-98 and \$281,700 GPR in 1998-99 and 6.0 GPR positions annually to administer the ad valorem utility tax on telephone companies.

<u>Alternative 2</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1997-99 REVENUE (Change to Bill)	\$587,400	- \$587,400	\$0
1997-99 FUNDING (Change to Bill)	\$587,400	- \$587,400	\$0
1998-99 POSITIONS (Change to Bill)	6.00	- 6.00	0.00

Prepared by: Ron Shanovich

MO#

Alt 2

BURKE	<input checked="" type="radio"/>	N	A
DECKER	<input checked="" type="radio"/>	N	A
GEORGE	<input checked="" type="radio"/>	N	<input checked="" type="radio"/>
JAUCH	<input checked="" type="radio"/>	N	A
WINEKE	<input checked="" type="radio"/>	N	A
SHIBILSKI	<input checked="" type="radio"/>	N	A
COWLES	<input checked="" type="radio"/>	<input checked="" type="radio"/>	A
PANZER	<input checked="" type="radio"/>	N	A
JENSEN	<input checked="" type="radio"/>	N	A
OURADA	<input checked="" type="radio"/>	N	A
HARSDORF	<input checked="" type="radio"/>	N	A
ALBERS	<input checked="" type="radio"/>	N	A
GARD	<input checked="" type="radio"/>	N	A
KAUFERT	<input checked="" type="radio"/>	N	A
LINTON	<input checked="" type="radio"/>	N	A
COGGS	<input checked="" type="radio"/>	N	A

AYE \_\_\_\_\_ NO \_\_\_\_\_ ABS \_\_\_\_\_

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### Wisconsin Property Assessment Manual Update (Revenue -- Tax Administration)

[LFB Summary: Page 521, #19]

## CURRENT LAW

The Department of Revenue is authorized to prepare, publish, update and distribute the four volume Wisconsin property assessment manual to local governments and the private sector. The manuals are sold on a subscription basis and revenues are placed in the Wisconsin property assessment manual program revenue appropriation. The 1997-98 base funding level is \$64,500 PR with 1.0 PR position.

## GOVERNOR

Provide \$130,000 PR in 1998-99 to contract with a private vendor to update Volume II of the Wisconsin Property Assessment Manual. The program revenue would come from fees charged by the Department for the manuals.

## DISCUSSION POINTS

1. Volume II of the Wisconsin Property Assessment Manual contains instructions, cost tables, depreciation schedules and local area modifiers that are used to value residential, apartment and agricultural buildings. The information included in Volume II helps assessors estimate the depreciated cost of reproducing or replacing buildings and site improvements in their taxation districts.



2. Volume II has not been updated since 1983. DOR officials argue that, because construction and materials costs have changed substantially in the interim, the volume should be updated to reflect current residential and agricultural construction methods. If the volume is not updated, assessors would be required to use outdated cost models or purchase cost manuals from private vendors.

3. Private companies such as Marshall & Swift and Boeckh publish cost manuals which local assessors could use to determine the cost of residential, apartment and agricultural buildings. Marshall & Swift publishes a manual that costs \$310 with updates priced at \$254. The American Appraisal Association (Boeckh) publishes a manual which costs \$354 with updates costing \$170. It could be argued that it is not necessary to produce a separate volume that would provide similar information to the information contained in the privately produced cost manuals.

4. However, the cost data included in the Marshall & Swift and Boeckh cost volumes is based on national and regional construction and materials cost data, whereas Volume II would be based on information from Wisconsin suppliers and contractors. Since most assessors would convert the national cost data into Wisconsin cost data using their own methods, some argue that use of national cost manuals would lead to nonuniform assessments between different municipalities. From this view, use of an updated Volume II would help assessors develop more accurate and uniform assessments than privately produced manuals.

5. As noted, the bill would provide \$130,000 to fund the cost of producing Volume II. Since it is estimated that approximately 1,000 local assessors, DOR staff and other individuals would purchase the manual. The estimated cost of each manual would be \$130. The price of updates would be nominal. Consequently, Volume II would be cheaper than privately published manuals.

6. Under current law, the Department is required to distribute one cost component volume to each assessor and to bill each municipality for an equal share of the cost of their assessor's manual. Approximately 550 assessors serve the 1,849 municipalities in the state, with some assessors serving a single municipality and at least one serving 50 municipalities. This method of billing would require DOR to bill some municipalities the entire \$130 cost of Volume II while other municipalities would be billed \$2.60 for their share of the volume's cost. There is a concern that this type of billing process is unnecessarily complicated and leads to a disparity in the cost imposed on different municipalities.

As an alternative, the Committee may wish to modify current law to require DOR to bill each individual assessor for the cost of the cost component volume and delete the requirement that municipalities pay an equal share of the assessor's volume. The Department could bill each assessor and would not be involved in billing the individual municipalities. The assessors could seek reimbursement from the municipalities.

However, this alternative would impose an additional cost on the local assessors for performing their required duties and there would be no guarantee that the additional cost could be recovered by billing the municipalities. Moreover, many contract assessors might not be able to bill the municipality for the cost of Volume II under the terms of their contracts.

A second alternative would be to require each municipality to purchase Volume II as well as Volume I of the assessment manual. However, many municipalities would object to this state mandated additional cost.

## ALTERNATIVES TO BILL

1. Approve the Governor's request to provide \$130,000 PR in 1998-99 to contract with a private vendor to update Volume II of the Wisconsin Property Assessment Manual.
2. Approve the Governor's request and also modify current law to require DOR to bill each assessor for the cost component of the Wisconsin Assessment Manual and delete the requirement that each municipality be billed for an equal share of its assessor's cost component.
3. Approve the Governor's recommendation and modify current law to require each municipality to purchase Volume II of the Wisconsin Property Assessment Manual.
4. Delete provision.

### Alternative 4

1997-99 FUNDING (Change to Bill)

PR

- \$130,000

MO#

Alt 2

Prepared by: Ron Shanovich

2 BURKE	<u>Y</u>	N	A
DECKER	<u>Y</u>	N	A
GEORGE	<u>Y</u>	N	<u>A</u>
JAUCH	<u>Y</u>	N	A
WINEKE	<u>Y</u>	N	A
SHIBILSKI	<u>Y</u>	N	A
COWLES	<u>Y</u>	N	A
PANZER	<u>Y</u>	N	A
JENSEN	<u>Y</u>	N	A
OURADA	<u>Y</u>	N	A
HARSDORF	<u>Y</u>	N	A
ALBERS	<u>Y</u>	N	A
GARD	<u>Y</u>	N	A
KAUFERT	<u>Y</u>	N	A
LINTON	<u>Y</u>	N	A
COGGS	<u>Y</u>	N	A



## REVENUE

## Wisconsin Property Assessment Manual

## Motion:

Move to require the Department of Revenue to produce the Wisconsin property assessment manual on CD-ROM, in addition to the current methods used to produce the manual, if the Department determines that demand for the CD-ROM format is sufficient.

## Note:

Under current law, DOR publishes and distributes Volume I of the Wisconsin property assessment manual on a subscription basis to each municipality. In SB 77, the Governor has recommended providing \$130,000 PR in 1998-99 to contract with a private vendor to update Volume II of the manual. This motion would require DOR to produce the manual on CD-ROM, in addition to the current methods of production. The motion would provide no additional funding to cover the costs associated with producing the manual on CD-ROM. However, if DOR could not cover the costs with existing resources, the Department could request additional funding under s. 16.515 of the statutes.

MO#

1050

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

Motion #1050

AYE 14 NO 1 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director  
Legislative Fiscal Bureau

## ISSUE

### Electronic Funds Transfer (Revenue -- Tax Administration)

[LFB Summary: Page 515, #9]

## CURRENT LAW

Most tax returns, related forms and information, and tax payments are generally required to be signed and mailed to the Department of Revenue (DOR). The forms, information and payments usually must be sent in an envelope, with postage prepaid, and be postmarked before midnight on the due date. The documents and payment must be received within five days of the due date. In addition, the forms and returns are usually prescribed and, frequently, provided by DOR.

## GOVERNOR

Authorize the Department of Revenue to prescribe alternative methods for filing or furnishing and authenticating tax returns, reports and other related documents and for paying, depositing or remitting taxes. The Department would have authority to designate alternative tax or document processors. Under these provisions, prescribed documents could be filed or furnished by delivering or mailing them to the Department, or DOR could authorize another method of submitting or another destination. Similarly, amounts could be paid, remitted or deposited by mailing or delivering funds to the Department, or the funds could be submitted by a different method. Documents could be authenticated by writing one's signature or DOR could prescribe another method of authenticating information or tax payments. As is currently the case, returns, other forms and payments would be considered furnished, reported, filed or made on time, if mailed in a properly addressed envelope with postage prepaid and postmarked before midnight on the date such payments or documents were due. These payments and documents

would continue to be due within five days of the due date. Documents and payments that were not mailed would be considered timely if they were received on or before the due date by the Department or at a destination prescribed by DOR. These provisions would apply to the individual income tax, corporate income and franchise tax (including insurance companies), sales and use tax, recycling surcharge, estate tax, motor vehicle tax, general aviation tax, beverage taxes, cigarette tax and tobacco products tax.

The bill would also authorize DOR to require electronic funds transfer for tax payments in the following cases:

- a. *Corporate Income and Franchise Tax.* When any quarterly estimated tax payment was \$20,000 or more.
- b. *Income Tax Withholding.* For any employer who was required to deposit withheld income taxes on a monthly or more frequent basis.
- c. *Sales and Use Tax.* When the amount of sales taxes collected exceeded \$3,600 in any calendar quarter.
- d. *Cigarette Tax.* When the amount of taxes paid was \$20,000 or more.

These provisions would be effective on January 1, 1998.

Electronic funds transfer would result in earlier tax collections in the cases where it was required. Consequently, interest earnings for the general fund would increase by an estimated \$550,000 in 1997-98 and \$1,100,000 in 1998-99. Electronic funds transfer would also reduce printing, postage and microfilming costs. As a result, the Department's budget would be decreased by \$61,000 GPR annually to reflect these reduced costs.

## **DISCUSSION POINTS**

### **Alternative Methods for Filing Returns and Payments**

1. Individual income taxpayers can file tax returns by paper or electronically. Approximately 194,000 electronic returns and 2,692,000 paper returns were filed for tax year 1995. These returns are mailed or transmitted to the Department of Revenue. Currently, individuals who wish to file electronic returns must use private tax practitioners who have the software to transmit the returns.

2. Sales and use taxes are paid by filing a paper return. The taxpayer sends the return and remittance to the state depository bank. The bank then deposits the remittance, validates the returns and delivers the validated returns to the Department of Revenue. The

Department processes over one million sales and use tax returns and related documents on an annual basis.

3. Corporations are required to file a paper income and franchise tax return with DOR following the close of the tax year. In fiscal year 1995-96, approximately 107,700 corporate income and franchise tax returns (including tax-option corporation returns) were filed. In addition, if the sum of a corporation's franchise or income tax due and temporary recycling surcharge is \$500 or more, it generally must make quarterly estimated payments. Estimated payments can be made by filing a paper estimated payment return and remittance with the state depository bank or through electronic funds transfer (EFT). For fiscal year 1995-96, approximately 26,000 corporations filed paper estimated payment returns while 389 were registered to use electronic funds transfer. (The number of corporations that are registered to use electronic funds transfer has increased to 925.)

4. Employers that deduct and withhold income taxes are generally required to file and deposit withheld amounts with the state depository bank on a semi-monthly, monthly, quarterly or annual basis. The amounts are sent to the bank along with a paper withholding tax deposit form. However, DOR allows electronic funds transfer of withholding amounts on a voluntary basis. A total of 1,490 employers participate in the voluntary EFT program. Most employers continue to use the paper deposits; a total of 1.4 million withholding deposit forms are processed on an annual basis.

5. Cigarette taxes are paid by purchasing tax stamps from DOR. There are currently 78 distributors who purchase cigarette tax stamps. The stamps are usually purchased by filing a monthly return and remittance for the stamps with the Department. Impressions applied by meter machines may be used in lieu of stamps. Certain manufacturers and distributors may purchase stamps on credit.

6. In addition to returns and payments, state taxpayers are frequently required to file other related forms and documents with DOR. These additional documents or forms include but are not limited to: estimated tax forms for individuals, estates and trusts; claims for homestead and farmland preservation credits; income tax amended returns; alternative minimum tax forms; partnership returns; tax-option (S) corporation shareholder returns; tax-option (S) corporation returns; credit union net income forms; development zone, research and farmland tax relief tax credit forms; capital gain and loss forms; sales tax exemption forms; annual withholding reconciliation forms; liquor floor tax returns; and cigarette inventory tax returns.

7. There are few statutory provisions which specifically authorize various methods of electronic data interchange such as electronic filing and electronic funds transfer under the state individual income, corporate income and franchise, sales and use, beverage and cigarette taxes. The bill would give DOR the authority to prescribe alternative methods for processing state taxes that would be more consistent with current technology. It is believed that providing the Department with such authority would improve the efficiency of DOR's tax administration

activities. The current processing systems primarily rely on DOR staff, including both LTEs and permanent positions, to open, sort and route paper forms, screen returns for accuracy and key information from the returns into various data processing systems. These systems are time consuming and costly. Use of electronic data interchange and filing would reduce the amount of manual processing, improve the accuracy of information provided and shorten processing times. Also, because the number of paper returns would decrease, the amount of space needed to store tax records would be reduced. However, the Department has not identified specific savings that would result from receiving the authority to implement alternative tax processing methods. (The bill deletes \$61,000 GPR annually to reflect savings from implementing electronic funds transfer.)

8. The bill provides funding for scanning and imaging of individual income and sales and use tax returns and real estate transfer returns. Implementation of the scanning and imaging system would reduce or eliminate certain processing activities including validating, keying, sorting and microfilming functions. Consequently, the bill deletes \$63,800 GPR, 6.0 GPR positions and 6.0 PR positions in the biennium, to reflect savings from the reduction in processing activities.

9. DOR requires the use of electronic data interchange and electronic funds transfer for payment of the motor fuel tax. Use of electronic data interchange significantly reduced the amount of paper returns and allowed DOR to eliminate 4.5 positions that were used to code and key data from the returns into data processing systems. The net savings was about \$80,000 a year.

10. Since DOR has indicated that the authority to prescribe alternative methods for processing taxes would improve the efficiency of its tax collection activities and the Department has reduced positions to reflect other similar processing improvements (scanning and motor fuel tax processing) the Committee may wish to make approval of the authority contingent on DOR identifying savings from implementing data interchange processes. DOR could be required to identify savings from implementing electronic tax processing methods and submit a report listing these savings to the Committee for its review at its March meeting under s. 13.10 in 1997-98. This would allow the Committee to adjust the Department's funding level for fiscal year 1998-99.

11. Under the bill, DOR would receive authority to prescribe alternative methods for filing returns and related documents. A concern could be raised that the Department could require certain methods of electronic tax processing that would impose significant additional costs on taxpayers. For example, many small employers might find it difficult to purchase the software and the data processing equipment that would be necessary to implement electronic filing of income taxes for their employees. Consequently, the Committee could direct the Department to prescribe alternative tax processing methods that would be voluntary. This would be similar to the current withholding EFT program which allows for voluntary use of electronic funds transfer by employers.



## **Electronic Funds Transfer**

1. Under current law, corporations are required to make estimated income and franchise tax payments in four installments on or before the 15th day of the 3rd, 6th, 9th and 12th month of the tax year.

2. In general, employers who deduct and withhold amounts make quarterly withholding deposits. However, if the amount deducted and withheld in any quarter exceeds \$300, DOR may require monthly withholding deposits. If the amount deducted and withheld in any quarter exceeds \$5,000, DOR may require semi-monthly withholding deposits. Finally, the Department may permit other than quarterly withholding deposits for an employer whose withheld taxes do not exceed \$50 a month.

3. Sales and use taxes are generally due and payable on a quarterly basis. However, if the amount of sales and use taxes for any calendar quarter exceeds \$600, DOR may require that the taxes be paid on a monthly basis, due and payable on the last day of the next succeeding month. In addition, if the amount withheld for any calendar quarter exceeds \$3,600, DOR may require that the taxes be due and payable on the 20th day of the next succeeding month.

4. The state cigarette tax is imposed and paid by the purchase of cigarette tax stamps from DOR. To evidence the payment, stamps are affixed to each package of cigarettes prior to the first sale within the state. In lieu of stamps, the Secretary of Revenue may authorize impressions applied by the use of meter machines.

5. The bill would require that electronic funds transfer be used to pay taxes in the following cases: (a) when any quarterly corporate income and franchise tax estimated payment is \$20,000 or more; (b) for any employer who is required to deposit withheld income taxes on a monthly or more frequent basis; (c) when the amount of sales taxes collected exceeds \$3,600 in any calendar quarter; and (d) when the amount of cigarette taxes paid is \$20,000 or more.

Under current law, DOR offers and accepts electronic funds transfer as a payment method for estimated income and franchise taxes, withholding taxes, fuel taxes and excise taxes. EFT is required for motor fuel taxes; use of EFT is voluntary for other tax payments. The Department offers electronic funds transfer through the Automated Clearinghouse (ACH) system, a nationwide network used by the Federal Reserve for the exchange and settlement of financial transactions. Two EFT options are offered by DOR: (a) ACH Debit; and (b) ACH Credit.

Under the ACH Debit method of EFT, the taxpayer authorizes DOR to electronically transfer tax payments from the taxpayer's bank to the Department's bank (Firststar). To initiate a transfer, the taxpayer calls DOR's data collection service and provides information to the service based on instructions sent by the service to the taxpayer. After DOR's data collection service receives the information, it provides the information to the Department's bank. The bank can then create a debit to the taxpayer's bank account. An EFT transaction must be initiated at

least one business day before the tax payment is due. Transactions are initiated by making a toll-free telephone call to DOR's data collection service using one of three data input options: (a) touchtone phone; (b) voice phone; or (c) PC modem. When the transaction is completed and the information is verified, the amount the taxpayer is paying is debited from the taxpayer's bank account on the following business day and transferred electronically to DOR's account in its bank. Since DOR is the originator of the ACH Debit transaction, the cost is charged to the state.

Under the ACH Credit option, the taxpayer authorizes its bank to transfer tax payments to the Department's bank. The taxpayer and bank determine the logistics of the method by which the taxpayer will contact the bank (usually by phone or computer), the hours during which business may be conducted and the method by which authorization of transfers may be verified. The taxpayer's account is debited at the time which the taxpayer has arranged with the bank and the payment is electronically transferred to DOR's account in its bank. In addition to the payment amount, supplemental information is sent with the funds transfer. All costs of ACH Credit services are payable by the taxpayer.

6. The thresholds for required EFT were chosen to apply the requirement to most large and mid-sized businesses. In 1995-96, an estimated 31,000 corporations made quarterly estimated payments of \$20,000 or more; a total of 52 distributors had monthly cigarette tax stamp payments of \$20,000 or more; there were 71,856 monthly withholding tax depositors and 20,900 semi-monthly depositors; and finally, there were 34,727 early monthly sales tax filers and 47,146 monthly filers. Thus, the EFT requirements would apply to about 30% of corporate filers, 67% of cigarette distributors; 65% of withholding tax filers and 23% of sales tax permit holders. DOR staff note that moving the threshold lower would begin to impose the EFT requirements on many small businesses.

7. Most states offer or require EFT for at least some state taxes. The Appendix provides a listing of the states and the specific taxes for which EFT was offered or required as of August, 1996.

8. It is argued that the benefits of implementing electronic funds transfer include providing more accurate and efficient cash management for taxpayers. For example, the taxpayer knows, in advance, the day on which each tax payment will be charged to the taxpayer's bank account. In addition, delays and possible lost payments due to mail delivery would be eliminated. DOR processing costs would be reduced or eliminated because there would be fewer paper checks to be manually processed. The bill deletes \$61,000 GPR annually to reflect reduced microfilming, printing and postage costs related to processing withholding tax deposit reports. EFT would reduce many errors that are related to manual processing of returns. For example, there would be fewer chances for posting payments to wrong accounts or in wrong amounts.

9. Requiring EFT would mandate a specific method of making tax payments for certain businesses. If these businesses chose to continue to use their own banks to make the transfer of funds, they would incur additional costs. In these cases, the business would be

charged for each transfer. However, if the business chose to use the ACH Debit method, through the Department's collection service, there would be no charge for funds transfers. In either case, the taxpayer would continue to file required paper forms.

10. As noted, \$61,000 GPR is deleted annually to reflect savings from reduced printing, postage and microfilming costs as a result of requiring EFT for withholding. However, no additional savings are identified from requiring EFT for corporate estimated payments, cigarette tax stamp purchases and sales taxes.

## **ALTERNATIVES TO BILL**

### **Alternative Methods for Filing Returns and Payments**

1. Approve the Governor's recommendation to authorize DOR to prescribe alternative methods for filing or furnishing and authenticating tax returns, reports and related documents and for paying, depositing or remitting taxes. Also, approve the Governor's recommendation to authorize DOR to prescribe alternative destinations for tax documents and payments.

2. Modify the Governor's recommendation to require DOR to identify potential savings from using alternative methods of filing and paying taxes and to submit a report listing these savings at the Committee's March meeting under s. 13.10 in 1997-98.

3. Modify the Governor's recommendation to require that any alternative method for filing tax documents and payments must provide for voluntary participation.

4. Maintain current law.

### **Electronic Funds Transfer**

1. Approve the Governor's request to require electronic funds transfer in the following cases: (a) when quarterly corporate income and franchise tax estimated payments are \$20,000 or more; (b) for employers that are required to make withholding tax deposits on a monthly or more frequent basis; (c) when the amount of sales taxes collected exceeds \$3,600 in any calendar quarter; and (d) when the amount of cigarette taxes paid is \$20,000 or more.

2. Maintain current law.

<u>Alternative 2</u>	<u>GPR</u>
1997-99 REVENUE (Change to Bill)	- \$1,650,000
1997-99 FUNDING (Change to Bill)	\$122,000

Prepared by: Prepared by Ron Shanovich

MO# A2 B1

1 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
2 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

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# APPENDIX

## State Electronic Funds Transfer (EFT) Programs (August 1996)

STATE	EFT TAXES	TAXPAYERS AFFECTED	PAYMENT OPTIONS	FILING SCHEDULE	EFFECTIVE DATE
Alabama	All corporate taxes	Tax liability of \$25,000 or more per tax return, fee, report, or other document	ACH Credit & Debit, Fedwire with approval	Depends on tax	Jan. '92
Alaska Division of Insurance	Insurance premium, ocean marine tax, hosp. & med. corp., retaliatory, title, surplus line	All taxpayers	ACH Credit (ACH Debit available 1/97)	Annual/Quarterly	Jan. '96
	All other taxes	All tax payments of \$100,000 or more due with a return required to be filed	Fedwire	Depends on tax	1982
Arizona	Withholding, corporate income	Taxpayers with liability of \$50,000 per quarter (withholding), or \$50,000 per year (corporate income) based upon average of previous year.	ACH Credit & Debit; Fedwire with approval	Depends on tax	Jan. '93
Arkansas	Withholding, sales/use, privilege, alcoholic beverage excise	Jan. '95: \$20,000 plus per mo.	ACH Credit & Debit	Quarterly for corporate estimated, monthly for others	Jan. '94 implem. date
	Tobacco, severance, spirits	Jan. '95: \$20,000 plus per mo.			
	Corporate estimated	Jan. '95: \$20,000 plus per quarter			
	Soft drink tax	Jan. '96: \$20,000 plus per mo.			
California Board of Equalization	Sales & Use	Sales & Use - avg. liability of \$20,000 per month	ACH Credit & Debit; Fedwire with approval	Depends on tax (for sales & use tax EFT eliminate need to file "prepaid form")	Jan. '93 implem. date

STATE	EFT TAXES	TAXPAYERS AFFECTED	PAYMENT OPTIONS	FILING SCHEDULE	EFFECTIVE DATE
California Franchise Tax Board	Bank & corporate tax; tax withheld at source, nonadmitted insurance tax	Bank & Corporations-Making any estimated tax or extension payment greater than \$50,000 or whose total tax liability is greater than \$200,000 are required to remit all payments by EFT. (1/1/95 - thresholds decreased to \$20,000 and \$80,000 respectively)	ACH Credit & Debit; Fedwire with approval	Depends on tax	Jan. '93 implem. date
Florida	Sales & use, corporate income, corporate est., motor fuel, gross receipts, insurance prem., severance, gas & sulphur prod., oil & gas prod., corporate intangible, documentary stamp, alcohol, tobacco, parimutuel, motor vehicle license & title, saltwater license & stamp, unempl. comp., child support coll.	Taxpayers with prior state fiscal year liability of \$50,000 or more; Unemployment tax for employers with prior year liability of \$20,000 or more.	ACH Debit; ACH Credit with written justification; Fedwire for emergencies with prior approval.	Depends on tax	Feb. '90
Georgia	Sales and use, withholding, motor fuel, corporate est., individual est.	Sales & Use, Withholding: Payments of \$20,000 or more per payment; Motor Fuel, Corporate Est: Payments of \$100,000 or more per payment; Individual Est. has not yet been implemented. Ultimate threshold of \$10,000 or more per payment.	ACH Debit; ACH Credit with justification	Depends on tax	Jan. '93
Hawaii	General excise and/or use, withholding, transient accommodations, rental motor vehicle and tour vehicle surcharge	\$100,000 prior year liability; allow voluntary participation with prior approval.	ACH Credit & Debit	Depends on tax	Mar. '96
Idaho	Any tax where the taxpayer makes a payment of \$100,000 or more in one payment	Payments of \$100,000 or more	ACH Credit & Debit	Depends on tax	July '88

STATE	EFT TAXES	TAXPAYERS AFFECTED	PAYMENT OPTIONS	FILING SCHEDULE	EFFECTIVE DATE
Louisiana	9/1/93 - gas, severance 12/31/93 - corp/franchise 3/1/94 - sales/withhold 1/1/95 - all other bus taxes	Monthly or Quarterly - liability averaging \$100,000 or more - 7/1/95 \$50,000 or more	ACH Credit & Debit; Fedwire with approval; immed. invest. funds	Depends on tax	Sept. '93
Maine (Voluntary)	Sales & use, withholding, corporate income, gasoline, special fuel supplier	Voluntary for all taxpayers	ACH Credit; Fedwire with approval	Depends on tax. Withholding, sales & use vary based on annual payment amt.	Dec. '94
Maryland	Withholding, sales, corp. excise	Voluntary - Quarterly filers with \$25,000+ annual liability; 1/1/95 - Mandatory for W/H pmts. of \$500,000+ Voluntary - Monthly filers with \$25,000+ annual liability. Note: All voluntary filers must be approved before sending EFT pmts.	ACH Credit; Paper coupon & check	Weekly	July '93
Michigan	Accelerated withholding, accelerated sales & use and voluntary monthly sales, use, withholding and single business taxes. Real estate transfer tax and school education taxes paid by the counties.	\$480,000 prior year liability for accelerated withholding, \$720,000 prior year liability for accelerated sales & use taxes. Voluntary monthly only for sales, use and withholding. Taxpayer may pay their single business taxes on their current schedule.	ACH Credit & Debit	Depends on tax	July '91
Minnesota	Sales, withholding, corporate estimate, petroleum, special taxes, Minnesota care taxes; voluntary for fiduciary and individual estimates	Mandatory for taxpayers making \$10,000 payments based on twelve month period starting July 1 or previous year; voluntary for others. Eff. 1/2/96; Withholding threshold for a business drops to \$50,000 per year.	ACH Credit & Debit, Fedwire	Depends on tax	Jan. '92
New Mexico	CRS-1 (sales, use and withholding) and oil & gas taxes	Average monthly combined liability for CRS-1 or oil & gas taxes of \$25,000 based on previous year or any individual payment of \$25,000 or more	ACH Credit, Fedwire; check if received at least two days prior to the due date. Generating ACH Debits from EDI (813)	Monthly	Jan. '89

STATE	EFT TAXES	TAXPAYERS AFFECTED	PAYMENT OPTIONS	FILING SCHEDULE	EFFECTIVE DATE
New York (State, NY City, City of Yonkers)	Income tax withholding	Taxpayers withholding \$400,000 or more annually.	ACH Credit & Debit, Fedwire, certified check	For each payroll	Jan. '90
	Sales and compensating use tax	Taxpayers with annual liability exceeding \$1 million	Same	Monthly	Dec. '92
	Prepaid sales tax on motor fuel and diesel motor fuel and combined motor fuel and petroleum business tax	Taxpayers with annual liability exceeding \$5 million	Same	Monthly	Dec. '92
North Carolina	Withholding, corporate, declarations, utility sales, utility franchise, alcoholic beverage, sales and use, soft drink, motor fuels, tobacco products, insurance	Taxpayers remitting \$1.2 million during a twelve consecutive month selection period, except motor fuels \$240,000/yr. and corp. declarations \$400,000/yr. EFT requirements are determined on a tax by tax basis. 10/1/95 sales and use tax reduced to \$240,000/yr. 1/1/96 remaining listed taxes reduced to \$240,000/yr. Voluntary partic. allowed with some taxes subject to certain requirements.	ACH Credit & Debit; Fedwire with approval	Depends on tax	Jan. '94
Rhode Island	Withholding, sales & use, consumer use, motor fuel & gasoline, insurance premiums, bank deposit, bank excise, tangible personal prop., public svc., gross earnings, cigarette stamp, corporation	Tax liability of \$25,000 or more per tax return, report, or other document. May apply to participate on a voluntary basis.	ACH Credit & Debit	Depends on return	Feb. '94
South Carolina	All Taxes -- being phased-in as conditions permit	Tax liability of \$20,000 or more per tax filing period, volunteers are welcome	ACH Credit & Debit; Fedwire with approval	Depends on tax	Jan. '91
	Sales tax - EFT/EDI (voluntary)	Using CCD with specific information in 6 records	Same	Monthly	June '95
	IFTA-EFT/EDI	Same as Sales	Same	Quarterly	Apr. '96



STATE	EFT TAXES	TAXPAYERS AFFECTED	PAYMENT OPTIONS	FILING SCHEDULE	EFFECTIVE DATE
South Dakota (Voluntary)	Sales, use & excise; IFTA	Any taxpayer with tax liability	ACH Credit & Debit; Fedwire with approval	Depends on tax. Sales/use due date is 20th; if taxpayer uses EFT, payment due at month's end	July '90
Tennessee	Sales & use, excise, tire, franchise, motor fuel, base, gross receipts alcoholic bev., beer, liquor	Taxpayers with average liability of \$10,000 or more per month base on previous year history	ACH Credit & Debit, Fedwire as backup (no prior approval)	Depends on tax and/or return	Jan. '90
Texas	All taxes and fees	Mandatory for taxpayers which paid \$500,000 or more during the previous year	ACH Credit & Debit; Fedwire if over \$1 million and as backup	Depends on tax	Jan. '90
Wisconsin	Withholding, estimated income and franchise taxes	Voluntary	ACH Credit & Debit	Depends on tax	Oct. '93
Source: Federation of Tax Administrators					